JULY – AUGUST 2004, VOLUME 30, NO. 4, ISSN #0732-8281

CFAnews

CONSUMER FEDERATION OF AMERICA

Congress Advances Anti-Consumer Agenda

Consumers scored one victory, but also suffered a series of set-backs in Congress in the weeks and months leading up to its summer recess.

In what proved to be a rare victory for consumers, Senate Majority Leader Bill Frist (R-TN) was forced to pull an anti-consumer class action bill from the floor when his maneuvers to prevent Democratic amendments cost him the votes necessary to invoke cloture.

On the other hand, the House passed legislation that would prevent the Financial Accounting Standards Board from requiring public companies to show their stock options costs as an expense on financial statements.

Bills were introduced in both the House and Senate to renew the Terrorism Risk Insurance Act immediately, without waiting for completion of a Treasury Department study on whether extension of the law is necessary.

And the House Agriculture Committee approved legislation to repeal the mandatory country-of-origin labeling provision passed as a part of the 2002 farm bill.

"Most of these anti-consumer bills are dead in the Senate for now," said CFA Legislative Director Travis Plunkett. "Only the terrorism insurance legislation appears to have a good shot at passage in the Senate before Congress recesses in mid-October."

Class Action Bill Pulled

Earlier this summer, Majority Leader Frist appeared to have brokered a deal to bring the class action legislation (S. 2062) to the floor as soon as the Senate completed debate on the defense authorization bill.

However, faced with the prospect of numerous Democratic amendments – including an expected amendment from Sens. Edward M. Kennedy (D-MA) and Barbara Boxer (D-CA) to raise the minimum wage – Sen. Frist used his power as majority leader to fill up all the available amendment slots.

That move alienated Democratic backers of the bill, and some Republicans.

As a result, a cloture vote fell 16 votes short of the 60 votes needed to shut off debate, and Sen. Frist pulled the bill from the floor.

With little time remaining in the legislative session, significant differences between the House and Senate bills, and a crowded legislative calendar, the legislation is considered to be dead for this year.

"Consumers can heave a sigh of relief for the moment," said CFA Assistant General Counsel Rachel Weintraub. "Unfortunately, we are likely to see more attempts to block legitimate class action lawsuits in the future."

House Passes Anti-Investor Stock Options Bill

Meanwhile, acquiescing to heavy lobbying from technology companies, the House passed legislation on a 312-111 vote in July to prevent the Securities and Exchange Commission (SEC) from accepting FASB's stock option expensing proposal.

Instead, H.R. 3574 would require companies to report as an expense only the stock options granted to the chief executive and the other top four highest paid employees.

Furthermore, it would force companies to use a method when computing that expense that grossly understates the value of the options by assuming no volatility in the options' value.

"This legislation manages to combine bad accounting, bad policy, and bad politics into one not-so-tidy package," said CFA Director of Investor Protection Barbara Roper.

CFA, Consumers Union, Consumer Action, and U.S. Public Interest Research Group wrote to members of the House before the vote urging them to oppose the legislation.

"This bill would harm investors both by depriving them of valuable information about the true financial status of the companies in which they invest and by undermining the independence of the accounting standard-setting process," they wrote.

The willingness of Congress to renege so quickly on its pledge to protect the independence of FASB is of particular concern, Roper said.

"If narrow interest groups are able to hold FASB hostage by taking their concerns to Congress any time the board issues a new proposal or rule that they don't like, then we can expect a continuation of the kind of weak accounting rules that contributed to the Enron disaster," she said.

Fortunately for investors, the bill faces stronger opposition in the Senate, where Senate Banking Committee Chairman Richard Shelby (R-SC) has repeatedly stated his opposition.

However, supporters have indicated they may attack the rule indirectly, by attaching a rider on an appropriations bill.

In an apparent effort to forestall any such move, SEC Chairman William Donaldson wrote to Senate Majority Leader Frist in August urging that "FASB's consideration of this proposed standard regarding stock options ... be allowed to run its full course."

Terror Insurance Bills Could Cost Consumers Billions

The insurance industry ramped up its efforts this summer to rush through a renewal of the Terrorism Risk Insurance Act (TRIA), and members of both parties in the House and Senate were lining up to do just that.

In June, Rep. Pete Sessions (R-TX) introduced H.R. 4634 and quickly gathered 76 co-sponsors. House Financial Services Democrats followed suit in August, introducing their rival bill, H.R. 4772, with 66 co-sponsors.

In the Senate, meanwhile, Sen. Christopher Dodd (D-CT) and 11 co-sponsors from both parties introduced S. 2764.

All three bills would provide an immediate, two-year renewal of TRIA more than a year before it is due to expire and before the Treasury Department can complete its study, due out next June, on whether renewal of the law is needed.

A CFA study released last April indicated the law will no longer be needed after 2005 to ensure the availability of affordable terrorism coverage for most areas of the country and should be allowed to expire.

"The insurance industry sold the terrorism insurance law as a temporary fix for a short-term problem, the lack of reinsurance for terrorism losses in the wake of 9-11," said CFA Director of Insurance J. Robert Hunter.

"In a brilliant bait and switch maneuver, the industry now wants Congress to again put taxpayers on the hook for billions of dollars in terrorism losses without ever taking a hard look at whether insurers could handle these losses themselves," he added.

Hunter and Plunkett wrote to leaders of the House and Senate in June urging them to oppose efforts by the insurance industry to rush through TRIA renewal legislation.

"It would be unconscionable for Congress to renew TRIA without first assessing whether this temporary tool is still necessary, and, if so, how it should be structured in the future," they wrote.

Even if Congress determines that renewal is justified, it should consider whether it is appropriate for the federal government to

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Auto Loan Markups Issue Heats Up

As several states began to take steps to rein in abusive auto loan markups, CFA released new research in July showing discriminatory practices by American Honda Finance Corporation (AHFC) in its auto finance program.

The report, prepared by Dr. Mark Cohen of Vanderbilt University, is based on an examination of records of 383,652 AHFC customers from June 1999 to April 2003.

Controlling for factors such as term of loan, type of vehicle, credit-worthiness of borrower, and geographic area, the report found that African-American borrowers were much more likely than white customers to be charged markups and were charged larger markups than white customers when they financed their cars at dealerships through AHFC.

An earlier study – released in January by CFA, the National Council of La Raza, and the Rainbow-PUSH Coalition – documented similar problems in other areas of the dealer finance market and estimated that resulting overcharges cost consumers at least $1 billion annually.

Auto loan markups occur when lenders allow car dealers to mark up auto loans above the "buy rate" reflecting the actual creditworthiness of borrowers. Most of these undisclosed markup charges, which typically add at least $1,000 to the cost of an auto loan, are kicked back to the dealer by the lender, with the lender retaining the remainder.

"A growing body of evidence reveals that hundreds of thousands of consumers, perhaps millions, have trusted auto finance companies and car dealers to charge them fair and reasonable rates, only to then be subjected to markups that, in the past, have often exceeded five percentage points," said CFA Executive Director Stephen Brobeck.

Discrimination against African-Americans and Hispanics has been particularly egregious, but the markups affect all consumers, noted Stuart Rossman, Director of Litigation at the National Consumer Law Center (NCLC) and co-counsel for plaintiffs in several auto loan markup cases.

"In addition to more costly monthly payment obligations and greater indebtedness, markup policies expose all customers to a higher incidence of various harms, including ineligibility for future financing programs through other lenders, exposure to higher credit costs under tiered pricing systems used by other lenders, and more frequent delinquencies and defaults, resulting in increased rates of repossession and bankruptcy," Rossman said.

States Attempt to Rein in Abuses

In response, several states have begun to take action to address the problems.

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Lower-Income, Minority Consumers at Risk from ARMs

At a time of both rising interest rates and rising purchases of adjustable rate mortgages (ARMs), a new survey commissioned by CFA indicates lower-income and minority consumers are particularly vulnerable to the risks of these mortgage loans.

The survey, which was conducted and released in July, reveals that lower-income and minority consumers are most likely both to prefer ARMs and to misunderstand the risks they pose.

However, the same survey also reveals that a large majority of Americans, if they were going to purchase a home in the next month, would prefer a fixed rate mortgage (FRM). Furthermore, the reasons they cited for preferring fixed rate mortgages suggest they are very aware of the interest rate risks of ARMs.

"The good news is that about two-thirds of Americans not only prefer fixed rate mortgages, but appear well aware of the risks of ARMs," said CFA Executive Director Stephen Brobeck. "The bad news is that lower-income and minority Americans are not only those most likely to prefer ARMs, but also those with the poorest understanding of their risks."

ARMs Are Broadly Marketed

Historically, ARMs were most likely to be purchased by affluent consumers who could afford mortgage interest rate increases, but that appears to be changing.

Today, ARMS are the choice of more than 30 percent of mortgage purchasers and are being marketed to all potential buyers, regardless of income or assets. More disturbingly, sub-prime borrowers are more than twice as likely as those with high credit scores to purchase ARMs, according to one report.

"Lenders who aggressively market ARMS to lower-income consumers and those with low credit scores are acting irresponsibly," Brobeck said.

Assuming a six percent initial interest rate, a one percent rate increase on a $100,000 mortgage would increase annual payments by $780. A four percent increase would increase annual payments by $3,330.

While some ARMS cap interest rate increases at two percentage points annually, and five percentage points for the life of the mortgage, others do not.

"Given the high probability of interest rate increases, an adjustable rate loan made to a family which can barely afford the initial monthly payments represents a ticking time bomb," Brobeck said.

The consumer survey was conducted for CFA by Opinion Research Corporation International. It asked, "If you were going to purchase a home in the next month with a 30-year mortgage, which of the following types of mortgage would you prefer?"

Nearly two-thirds (64 percent) said they would prefer a fixed rate for the entire term, while only 25 said either an adjustable rate mortgage or a 7-year hybrid loan, which offers a fixed rate for seven years and then an adjustable rate after that.

Preference for FRMs Based on Sound Reasons

Among those preferring a fixed rate mortgage: 92 percent cited the security of knowing how much their mortgage payments would be throughout the terms of the mortgage as very important; 88 percent said the concern that mortgage interest rates would rise and they would end up paying more in interest with an ARM was very important; and 81 percent said that the concern that mortgage interest rates would rise and they would not be able to afford higher monthly payments was very important.

"Some economists chide consumers for preferring 'overpriced' fixed rate mortgage loans to ARMs," Brobeck said. "But those consumers who currently favor fixed rate mortgages do so because of their awareness of not only the likelihood of rising interest rates, but also the huge potential downside risk of interest rate hikes – unaffordable mortgage payments, insolvency, and foreclosure."

The 25 percent of Americans who say they prefer ARMs are younger, poorer, and less well educated than those who prefer fixed rate mortgages. In addition, 37 percent of Hispanics and 31 percent of African Americans, but only 23 percent of whites, prefer ARMs.

"The fact that Americans with the least experience in the marketplace and the least education are most likely to prefer ARMs suggests that lack of financial knowledge is associated with preference for ARMs," Brobeck said.

Survey findings supported this hypothesis.

For example, those preferring ARMs seemed less clear about the reasons for their preference. Fewer than one-half cited any of the following reasons as very important: they don't think interest rates will rise much, they would be likely to keep the loan for less than seven years and so aren't worried about rate hikes, or they could afford a larger mortgage payment.

Furthermore, those preferring ARMs were much less aware of the interest rate risks than were those preferring fixed rate mortgages. Large percentages either couldn't estimate or dramatically underestimated the increase in payments that would accompany a rise in interest rates.

Finally, young adults, Hispanics, the poor, and the least educated were also most attracted to highly risky interest-only mortgage loans, whose payments rise rapidly after three to five years when interest begins to be charged.

Lenders Urged Not to Market ARMs to Vulnerable Consumers

In releasing the survey, CFA called on lenders not to market ARMs to consumers with low incomes, low wealth, or low credit scores. CFA also called on lenders to clearly disclose the financial impacts of future interest rate increases to ARM purchasers.

"In making these loans, lenders should be taking into account not only the borrower's ability to pay under the initial rate, but also under the maximum payments allowed, should rates rise," Brobeck said.

Finally, CFA urged those who purchase securitized ARMS – the Government Sponsored Enterprises and investors – to carefully consider the risks of purchasing ARMs held by people with high credit risks.

"In a rising interest rate environment, investors should be particularly leery of purchasing sub-prime adjustable rate mortgages," Brobeck said. "These high-priced ARMs have the potential to harm investors as well as borrowers."

On the **Web**
www.consumerfed.org/072604_ARM_Survey_Release.pdf

Auto Loan, *Continued from Page 1*

In August, California's legislature became the first to adopt legislation attacking the problem.

The bill would cap dealer markups at 2.5 percent for loans of 60 months or less, and at 2 percent for longer loans, matching caps adopted by General Motors and Ford in response to litigation. (More than half the auto lending market nationwide continues to charge markups above these levels.)

"If Governor Schwarzenegger signs AB 1839, California will have the toughest law in the country to crack down on dealer markups," said Rosemary Shahan, President of Consumers for Auto Reliability and Safety (CARS), which has spearheaded the efforts to win passage of the bill.

As this issue of *CFAnews* went to press, it was unclear whether Governor Schwarzenegger would follow through on an earlier threat to veto the measure, since that threat was reportedly based primarily on an unrelated provision that was later removed from the bill.

Earlier in the year, New York Attorney General Eliot Spitzer settled a case with a New York Nissan dealer in which the dealer agreed to establish a flat rate for markups and to provide complete disclosure of all such charges to customers.

At the time, Attorney General Spitzer pledged to make the settlement the basis for legislation to impose the reforms on dealers throughout the state. So far, however, that effort has run into roadblocks in the state legislature.

Pro-consumer legislation ran into similar problems in Illinois. Meanwhile, Louisiana passed industry-sponsored legislation in August that reins in the worst abuses, but imposes only a 3 percent cap on markups, a cap that exceeds the voluntary limits adopted by Ford and General Motors.

Advocates Urge Stronger Curbs

While heartened by this progress, and by consumer education efforts undertaken and funded by the auto loan finance companies, consumer groups remain opposed to auto loan markups in principle.

"Creditworthiness is entirely taken into account by the buy rate at which lenders are prepared to extend credit to car buyers," Brobeck said.

"Dealers should be permitted to charge lenders a reasonable processing fee," he added, "but they should not be permitted to arbitrarily mark up loan rates above the buy rates and to do so without disclosing these markups."

"We believe discretionary markups should eventually be eliminated," Shahan concurred, "so no one is subjected to price-gouging to get an auto loan."

On the **Web**
www.consumerfed.org/072704_Honda_Loan_Discrimination_Release.pdf
www.consumerfed.org/hondasummary.pdf
www.carconsumers.com

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CFAnews is published eight times a year. Annual subscription rate is $25 per year.

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Design & Typeset by: Dahlman/Middour & Nolan Design

SEC Pledges Vote on Broker-Dealer Rule

The Securities and Exchange Commission announced in August that it would reopen the comment period on a long-pending rule proposal that expands the conditions under which brokers can escape regulation as investment advisers.

"While we are pleased that the Commission has at long last put this issue back on its agenda, simply adopting the rule as proposed or tinkering with its disclosure requirements will not benefit investors," said CFA Director of Investor Protection Barbara Roper.

"This is an ill-conceived rule that must be either scrapped entirely or radically rewritten to put the interests of investors, rather than brokers, first," she added.

The rule in question addresses how the Investment Advisers Act applies to fee-based accounts offered by broker-dealers.

The advisers act exempts brokers, but only to the extent that they: 1) limit themselves to giving advice that is "solely incidental" to their primary business of effecting transactions in securities and 2) do not receive "special compensation" for that advice.

For years, the SEC has effectively removed the "solely incidental" standard, by allowing brokers to expand their advisory services and hold themselves out to the public as advisers without triggering regulation under the advisers act.

The rule proposal goes a step further, by removing the special compensation test for non-discretionary, fee-based brokerage accounts.

As a result, it perpetuates a system in which financial professionals who are indistinguishable to the investors who must choose between them are subject to very different standards of conduct.

Specifically, while investment advisers have a fiduciary duty to place their clients' interests ahead of their own, brokers are merely required to make generally suitable sales recommendations. Also, brokers do not have to provide the same disclosures, including disclosures about conflicts of interest, that investment advisers must provide.

"The recent mutual fund scandals provide ample evidence of the enormous gap between the advisory image brokers promote and the sometimes seamy reality of their conduct," Roper said. "This is the predictable result of allowing advisory services to be offered under a sales-oriented standard of conduct."

"It is long past time for the SEC to require brokers to either abide by the standards appropriate to an advisory relationship or stop misrepresenting their services to the public as advisory in nature," she added.

The rule proposal has never been formally acted on by the Commission. When the Commission issued the rule proposal, however, it agreed that, pending final adoption, it would not recommend an enforcement action against a broker for conduct that complies with the proposed rule but that would otherwise be in violation of the Advisers Act.

That was in November of 1999. Because of the Commission's non-enforcement position, the rule has effectively been in place all that time.

The Commission's decision to reopen the comment period on the rule came in response to a lawsuit filed in July by the Financial Planning Association, which challenged the legality of allowing the rule to take effect through a no action position.

In reopening the comment period, the Commission has pledged to complete action on the rule by the end of the year.

On the **Web**
www.consumerfed.org/fpa_lawsuit_statement.pdf
www.consumerfed.org/secbrokers.pdf

Rules Perpetuate Bounce Loan Abuses

New regulations proposed by the Federal Reserve Board in June would permit banks to continue making very expensive overdraft, or "bounce," loans without telling consumers their true cost.

CFA, National Consumer Law Center, Consumers Union, National Association of Consumer Advocates, and Woodstock Institute filed comments in August in opposition to the proposed rules.

A growing number of banks and other financial institutions have adopted programs that boost their overdraft fee profits by encouraging consumers to overdraw their bank accounts by check and by allowing overdrafts for cash withdrawals at ATMs and for purchases using debit cards.

Banks charge high overdraft penalty fees, ranging from $20 to $35 per overdraft. Some banks also charge a per-day fee of $2 to $5 until the account is brought to a positive balance.

With "bounce loan" programs, banks pay themselves back the amount of the overdraft and fees out of the next deposit.

The loans are extremely expensive. A $100 overdraft with a $20 fee has an annual percentage rate (APR) of 520 percent if the overdraft lasts two weeks.

"Bank bounce loans are payday loans without a contract or cost disclosures," said CFA Director of Consumer Protection Jean Ann Fox.

Survey Finds Widespread Problems

A recent survey of 50 financial institution websites by CFA found a number of problems.

Many ads fail to provide clear information about the cost and terms of overdraft programs, the survey found.

In addition, some use statements such as "we've got you covered" or "peace of mind" that could cause consumers to trust that they will always pay overdrafts. Meanwhile, fine print disclosures give the financial institution the flexibility of deciding not to cover overdrafts.

The consumer groups also noted in their comment letter that bounce loans made to cover ATM machine and debit card overdrafts essentially transform the ATMs and debit cards into extraordinarily high-priced credit cards.

Exacerbating the problem is the fact that consumers do not expect to be allowed to overdraw their accounts through ATM withdrawals and point-of-sale purchases.

A recent survey conducted for CFA by Opinion Research Corporation International found that 82 percent of consumers believe overdrafts without notice at the ATM are unfair, with 63 percent saying the practice is "very unfair."

And, while banks argue that the bounce loans save consumers money on retailer fees, this argument does not usually apply to bounce loans made on ATM and debit card overdrafts.

Proposed Rules Fail To Address Problems

Despite these documented problems, the Federal Reserve rules would not require financial institutions to make a firm commitment to cover overdrafts and or to clearly disclosing the cost of these loans – a requirement for all other lenders under the Truth in Lending Act.

"The Federal Reserve has failed to protect consumers from bank bounce loans that force consumers to pay triple-digit interest rates," Fox said.

The consumer groups called on the Federal Reserve to require bank overdraft programs to comply with Truth-in-Lending rules governing open-end credit.

Under Truth-in-Lending rules, banks would no longer be permitted to provide "courtesy overdraft" without a contract with account-holders, without APR cost disclosures, and without providing consumer recourse.

On the **Web**
www.consumerfed.org/Overdraft_FRB_comment_806_04.PDF
www.consumerfed.org/Document.pdf

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continue to provide reinsurance without charging a premium for that coverage.

"It is virtually impossible for private market responses to compete with free reinsurance offered by the government, the cost of which is borne by taxpayers," Hunter and Plunkett wrote.

Insurers, who are experiencing record profits, "can certainly afford to pay premiums for the reinsurance," they added.

Insurers have argued that early renewal is necessary to prevent "market disruption" resulting from the fact that some terrorism policies that will be written early next year while the law is in place would extend beyond the expiration of TRIA.

"What the industry hasn't told Congress is that they have already convinced most states to allow insurers to exclude terror coverage in policies that extend beyond the expiration of TRIA," Hunter said. "If the law expires, these exclusions would be in force and no market disruption would occur."

Bill Would Overturn Food Labeling Rule

In the name of making a mandatory program voluntary, the House Agriculture Commission adopted legislation on country-of-origin labeling (H.R. 4576) in June that would effectively kill a program that can provide consumers with important information about the source of their food.

Recent incidents, such as the mad cow scare and the Hepatitis A outbreak related to scallions, "only reinforce the fact that consumers need to be able to determine where their food comes from," said Carol Tucker Foreman, Director of CFA's Food Policy Institute.

Numerous polls have shown overwhelming consumer support for labeling, along with a willingness to pay extra for such information.

CFA, Public Citizen, and National Consumers League wrote to members of the House in May urging opposition to the bill.

"Voluntary labeling has been an option for years," they noted, "yet few processors and packers have been willing to participate."

"Voluntary COOL will be worthwhile when it is accompanied by a pledge from all major packers and retailers to participate and label their products," Tucker Foreman said. "Until then, a voluntary program is merely another attempt to deny consumers vital information about their food."

On the **Web**
www.consumerfed.org/congress_TRIA_renewal.pdf
www.consumerfed.org/070104_TRIA_renewal_rush_letter.html

At the Agencies

Securities and Exchange Commission

The Securities and Exchange Commission gave unanimous approval in August to a rule prohibiting mutual funds from choosing where to execute portfolio transactions based on which brokers agree to distribute the fund.

This practice, known as **directed brokerage**, can drive up portfolio transaction costs when funds end up paying more for execution than they would otherwise have to pay. It also serves to encourage brokers to recommend funds based not on which are in their customers' best interests, but on which are willing to make the directed brokerage payments.

Consumer groups, including CFA, supported the rule proposal.

"This is an important step in what we hope will be broader Commission efforts to clean up mutual fund sales practices and discipline portfolio transaction costs," said CFA Director of Investor Protection Barbara Roper.

Department of Housing and Urban Development

The Department of Housing and Urban Development (HUD) issued a proposed rule in May establishing new **affordable housing goals** that Fannie Mae and Freddie Mac would have to meet in the years 2005 through 2008.

CFA, National Association of Consumer Advocates, National Community Reinvestment Coalition, National Congress for Community Economic Development, and National Low Income Housing Coalition submitted a joint comment letter in July in support of the establishment of new goals.

The rule is expected to be finalized this fall.

"Low- and moderate-income home buyers and renters have an important stake in the outcome of the HUD affordable housing goal rulemaking currently underway," said CFA Director of Housing Allen Fishbein.

"Both Fannie Mae and Freddie Mac have accomplished a great deal and fulfilled an important part of their housing mission," he added. "Yet much remains to be accomplished. Setting new goals that are both challenging and realistic is an important regulatory tool for increasing the supply of mortgage credit for modest income consumers."

The Government Sponsored Enterprises (GSEs) "have both the responsibility and the capabilities to lead the affordable housing market," the groups wrote in their comment letter. "Setting stretch goals would encourage them to perform consistently up to this standard."

The groups also advocated improvements to the rule, including:

- adding mechanisms for making some adjustments to the established goal levels should unanticipated changes in market conditions warrant them;
- improving the income targeting of the goals to ensure that they are properly targeted to the neediest segments of the mortgage market;
- narrowing the definition of underserved areas by imposing a tighter income ceiling for loans that count toward this goal;
- establishing minority purchase requirements in order to expand the GSE presence in minority markets and thus lessen the incidence of price discrimination that presently exists in these markets;
- establishing a home purchase subgoal for the new Underserved Areas Goal for Rural Areas; and
- raising the multifamily subgoal of the Special Affordable Housing Goal.

In addition, the groups called on HUD to adopt additional anti-predatory lending safeguards to match voluntary steps taken by the GSEs, and to "improve the usefulness of the Public Use Data Base (PUDB)" by releasing additional loan level data elements.

Internal Revenue Service

According to an internal advice memo issued by the chief counsel's office in July, the Internal Revenue Service (IRS) has concluded that many **credit-counseling agencies** do not meet the requirements to be tax-exempt organizations.

Specifically, the memo argues that "the new generation of credit-counseling organizations does not meet the criteria for exemption," because they "are not providing any meaningful education or relief of the poor."

Other agencies appear to violate tax-exemption laws on the grounds that they are being operated for the private benefit of their executives, according to the memo.

"The IRS is laying the groundwork in this memo for a large-scale attack on the business practices of unscrupulous credit-counseling agencies that masquerade as charitable non-profit organizations," said CFA Legislative Director Travis Plunkett.

"If the IRS vigorously enforces these new legal standards, it could drive a stake through the heart of agencies that overcharge consumers, deceive them about the real costs of counseling, or offer them poor counseling and bad advice," he said.

Responding to consumer complaints about deceptive and fraudulent marketing practices and to congressional investigations, the IRS began in April 2003 to give increased scrutiny to new applications for tax-exempt status from credit-counseling firms. In addition, it has undertaken audits of 50 credit-counseling agencies.

The memo cited practices uncovered in those audits, such as excessive compensation for executives and promising free services but then requiring clients to make a charitable contribution.

CFA documented these and similar abuses in a report on credit counseling practices released in April of 2003.

On the Web
www.consumerfed.org/directed_brokerage_ban_comments.pdf
www.consumerfed.org/HUDGSEgoals-finaljointltr0716.pdf
www.irs.gov/pub/irs-wd/0431023.pdf

Public Supports Assault Weapons Ban

Congress left for August recess without voting on renewal of the federal ban on assault weapons, which is due to expire in mid-September.

Although President Bush campaigned in 2000 on his support for the ban, he has not pressured House leaders to vote on renewal, and House Majority Leader Tom Delay (R-TX) has refused to bring the measure to the floor.

Meanwhile, new state polls released by CFA and the Educational Fund to Stop Gun Violence (EFSGV) in July show strong public support for the ban.

The surveys, compiled into a report titled "Unconventional Wisdom," measured the attitudes of likely voters, including gun owners, union members, and NASCAR fans. They found that strong majorities across demographic groups and geographic areas support banning military-style guns, such as Uzis and AK-47s.

The surveys were conducted in Arizona, Florida, Michigan, Missouri, Ohio, New Mexico, Pennsylvania, South Dakota, West Virginia, and Wisconsin. Among the key findings:

- Majorities of gun owners in all but two of the ten states (Missouri and Ohio) favor renewing the ban, and just under 50 percent of gun owners and NRA supporters in those two states favor renewal.
- In nine of the ten states surveyed, union households support renewing the ban by at least 60 percent. Similarly, more than 60 percent of NASCAR fans support renewing the ban in four out of the five states in which this demographic question was asked.
- Support for renewing the ban is nearly as strong in Southwestern states (Arizona and New Mexico) as it is in Midwestern states (Ohio, Wisconsin, Michigan, and Missouri). Support averaged 72 percent in Midwestern states, compared with 67 percent in Southwestern states.
- Voters in rural states, traditionally seen as very conservative on "gun control" issues, strongly support renewing the ban. In both South Dakota and West Virginia, 68 percent expressed support for renewal.

"Today's findings demonstrate a need to reassess how Americans view gun policy," said Sue Peschin, Director of CFA's Firearms Project. "When it comes to the assault weapons ban, there is surprisingly little disagreement. Americans don't want these military-style weapons on their streets."

On the Web
www.consumerfed.org/Unconventional_Wisdom.pdf
www.consumerfed.org/Unconventional_Wisdom_Release.pdf

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